Consumer Mathematics: Taxation

Taxation

process of revenue (money) collection from individuals or companies, for use in the country's development

Purpose of taxation

1. Source of government revenue

-govern the country

-finance the country's development projects

-redistribute income to address inequality in the society

2. Government policy implementation tool

-Tax can be levied in line with government policy, so that the policy is more effective

-For example: tax relief for parents' medical expenses, in order to cultivate caring community

3. Control of sales of goods or services

-on certain goods or services to discouraged them from buying certain goods or

services -For example: tobacco tax, alcohol tax and gambling tax.

4. Financial tool to stabilise the economy

-In some cases, taxation is one of the financial tools for the government to stabilise the economy.

How is tax revenue used?

- Education
- Infrastructure and Public Facilities
- Agriculture and Industrial
- National Security and Defence
- Development
- Healthcare
- Social Welfare

Type of Taxes

Income taxes

-tax imposed on income earned by a salaried individual or a company operating in Malaysia

-Collected by Inland Revenue Board (IRB), or in Malay Lembaga Hasil Dalam Negeri (LHDN)

How to calculate income tax?

1. Calculate Chargeable Income

Chargeable amount = Total annual income - Tax exemption - Tax relief

Total annual income

-includes all forms of wages, salaries, bonuses, dividends, interest, rentals,

royalties, premiums Tax exemption

-all personal expenses in the forms of gifts, donations, contributions to government or various organisations

Tax reliefs

- items or expenses, which are not taxed, for the benefit of the individual or family members, for example Employees' Provident Fund (EPF), medical treatment and education fees

2. Calculate Income Tax

Income Tax = Amount of base tax + Tax on next balance

-refer table of Individual Income Tax Rates for Assessment

3. Subtract Tax Rebate

Payable income tax = Income Tax - Tax rebates

Tax rebates

- Tax rebate of RM400 given to taxpayer if the chargeable less than RM35 000

- The amount of zakat or fitrah paid by Muslim citizens

Monthly tax deduction (Potongan Cukai Bulanan,PCB)

-salary deduction of an employee for income tax payment of current year

-based on the table of monthly tax deduction or PCB computational calculation method provided by Inland Revenue Board (IRB).

There are two conditions:

1. Tax payable > PCB

Tax – PCB = Insufficient tax payment

Insufficient tax payment must be made to IRB

2. Tax payable < PCB

PCB – Tax = Excess deduction

Excess deduction of PCB will be refunded by IRB to taxpayer's bank account

Joint tax assessment

-Tax assessment filed by husband (or wife). Wife's income (or husband's income) is aggregated with husband's (or wife's) when filing tax assessment

-reduce the total amount of tax reliefs

-cause the tax payment to increase dramatically

Separate tax assessment

-Husband and wife each file their own tax assessment

Road Tax

-levied based on the engine capacity of the vehicle used by the owner

-road tax will be higher for a vehicle with a higher engine capacity

-collected by Road Transport Department, or in Malay Jabatan Pengangkutan Jalan (JPJ)

Road tax = Base rate + Progressive rate(RMxx each cc exceeding XXcc)

Property Assessment Tax

-tax levied on all holdings or properties (residential houses, industrials, commercial buildings and vacant lands)

-to cover municipal expenses such as rubbish collection, drain cleaning and maintaining public parks

-collected by Local authority, such as municipal council or district council

Property assessment tax = property assessment tax rate × annual value

Quit Rent

-tax levied on the owner of agricultural land, corporate land and land with building

Quit rent = quit rent rate per unit area × total land area

-Collected by State land authority, which is State Land Office

Sales and Service Tax

-Sales tax is a tax levied only once on various taxable goods at the stage of manufacturing or during importation.

-Service tax is a tax levied on consumer who receives taxable services, such as hotel services, insurance and takaful, food and beverages preparation, telecommunications and credit cards

-Collected by Royal Malaysian Customs Department

Service tax/ Sales tax = Price x rate of tax(%)